



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM INVESTMENT COMMITTEE

Tuesday, October 10, 2017
9:00 a.m.

The Arizona State Retirement System (ASRS) Investment Committee (IC) met in the 14th Floor Conference Room of the ASRS Office, 3300 N. Central Avenue, Phoenix, Arizona 85012.

Mr. Clark Partridge, Acting-Chair of the IC, called the meeting to order at 9:04 a.m.

The meeting was teleconferenced to the ASRS office at 4400 E. Broadway Boulevard, Suite 200, Tucson, Arizona 85711.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Clark Partridge
Mr. Michael Lofton

One vacant position

A quorum of the IC was present for the purpose of conducting business.

2. Approval of the Minutes of the June 14, 2017 Public Meeting of the ASRS IC

Mr. Michael Lofton moved to approve the minutes of the June 14, 2017 public IC meeting. Mr. Clark Partridge seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 absent, 0 excused and 1 vacancy, the motion was approved.

3. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring and Oversight

Mr. Allan Martin, Partner, NEPC presented the NEPC Independent ASRS Investment Program Oversight Report for the period ending June 30, 2017. He noted NEPC's role providing independent oversight of the investment program reporting to the board. Mr. Martin reviewed the major investment objectives. He noted that while the 20 year return of 7% is lower than the actuarial target, returns for longer periods exceed the target. He reviewed performance for the most recent one, three and five year periods noting that while the 13.9% return is well above the actuarial target, it was 10 basis points (bp) below the benchmark. Returns for the three and five-year were 96bp and 83bp above their respective benchmarks. Mr. Martin then presented a detailed attribution analysis noting generally positive results from asset allocation and manager selection efforts. Finally, Mr. Martin presented a comparison of ASRS results to a peer universe of pension plans with assets greater than \$1 billion noting that the one and five-year returns realized by ASRS placed it in the top 23% and top 12% compared to the peer universe.

4. Presentation, Discussion, and Appropriate Action Regarding Quarterly Report on Investment Performance

Mr. Karl Polen, Chief Investment Officer, introduced the Senior Portfolio Managers who presented the results for their respective portfolios. Mr. Eric Glass, Sr. Portfolio Manager of Private Equities, presented results for the public equity portfolios. He noted the historic underperformance of the actively managed equities which led to a recent decision to terminate the active management program, transitioning assets to a combination of internally managed enhanced index portfolios, externally managed index portfolios and internally managed factor based strategies. The ASRS is in the process of transitioning to this program for domestic equities and anticipates commencing a similar strategy for international equities in coming weeks. Mr. Glass then reviewed the performance of the Private Equity portfolio noting the positive long run performance relative to both public market indices and peer private equity universe. He then presented performance for the real estate portfolio noting the superior performance of the new separate account strategy implemented starting in 2011, which has generated excess returns compared to its benchmark of 4.56%. Mr. Glass presented results for the commodities, farming and infrastructure portfolio which in aggregate have exceeded their benchmarks.

Mr. Al Alaimo, Sr. Portfolio Manager of Fixed Income, Cash, and Liquid Alternatives, presented the results for the fixed income portfolios. He noted that the public fixed income portfolio outperformed in the three-year and five-year periods but slightly underperformed in the one-year period because of an underweight in high yield securities. He further noted the consistent outperformance of the internally managed F2 portfolio. He then reviewed the private debt portfolio describing the strategies and noting outperformance of 431bp compared to the levered loan +250bp benchmark. Mr. Alaimo then presented the fixed income Opportunistic Portfolio noting the range of strategies in the portfolio and the from inception performance for the portfolio of 9.87%.

5. Presentation, Discussion, and Appropriate Action Regarding Portfolio Positioning, House Views and General Discussion

Mr. Karl Polen described the current portfolio positioning of the ASRS portfolio noting tactical underweights in core fixed income and real estate balanced by a tactical overweight in credit investments and a slight overweight in equity investments as a result of high returns in the sector. He then provided a broad review of current global economic conditions. Mr. Glass continued the presentation with a discussion of market conditions and relative valuations for global equities, the fund raising and Mergers and Acquisitions environment for private equities and real estate property markets. Mr. Alaimo presented the current market environment for global fixed income including a review of global interest rates, credit conditions and the activities of the major central banks.

6. Presentation, Discussion, and Appropriate Action Regarding Risk Management

Mr. Karl Polen presented the risk analysis report prepared by MSCI. He noted that the risks of the portfolio are very closely in line with the Strategic Asset Allocation. The committee discussed the current downward trend in portfolio consistent with trends in global markets.

7. Presentation, Discussion, and Appropriate Action Regarding IMD Activities and Asset Class Committee Reports

Mr. Karl Polen presented activities of the Investment Management Division noting in particular various technology initiatives which are being used to enhance portfolio management capabilities leading, for example, to recent improvements in the management of the Public Equities portfolio.

8. Presentation, Discussion, and Appropriate Action Regarding Compliance

Ms. Kerry White, Assistant Chief Investment Officer for Reporting, Compliance & Administration, and Ms. Lupita Breland, Sr. Portfolio Analyst presented a compliance report for ASRS investment activities. They described the compliance systems in place for the public and private market portfolios and presented the results of compliance monitoring noting there are no unresolved compliance matters.

9. Request for Future Agenda Items

There were no requests for future agenda items.

10. Call to the Public

No members of the public requested to speak.

11. The next ASRS Investment Committee Meeting is scheduled for Friday, December 15, 2017 at 9:00 a.m. at 3300 N. Central Avenue, 14th Floor Conference Room, Phoenix , Arizona

Mr. Partridge noted the next IC meeting is scheduled for Friday, December 15, 2017 at 9:00 a.m.

12. Adjournment of the ASRS IC Meeting

Motion: Mr. Michael Lofton moved to adjourn the October 10, 2017 Investment Committee Meeting at 11:51 a.m. Mr. Clark Partridge seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 absent, 0 excused and 1 vacancy, the motion was approved.

Respectfully submitted by:

Alicia Guzman/Karl Polen
Investment Committee Administrator/Chief Investment Officer
ARIZONA STATE RETIREMENT SYSTEM